

The Impact of the WTO Agricultural Agreement on Developing Countries

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Abstract: Agricultural insurance, as an agricultural risk management tool to disperse agricultural risks, compensate farmers' losses and safeguard agricultural production, has become an indispensable part of the agricultural security system in various countries. However, due to the high cost of agricultural insurance, many countries provide financial subsidies for agricultural insurance. This paper introduces the help of agricultural insurance subsidies to countries in World Trade Organization (WTO), summarizes the main features and inadequacies of relevant WTO rules, and analyzes the existing problems of agricultural insurance subsidies from four aspects based on the practice of American agricultural insurance subsidies. The main conclusions of this paper include: first, the rules of agricultural insurance subsidy are limited and the classification is not clear, which seriously harms the agricultural development of developing countries; second, income insurance and natural disaster insurance in premium subsidies are regarded as "green box" tools, which need to meet certain conditions, otherwise there is still the possibility of being regarded as "amber box" tools; third, the current WTO rules on agricultural insurance subsidies are more conducive to the development of developed countries, but the agricultural insurance subsidies in developing countries lag behind and are difficult to implement, and the rules on agricultural insurance subsidies urgently need to be improved. Fourth, the double standards of developed countries and developing countries have caused differences in the classification of agricultural insurance subsidies. Finally, the thesis puts forward some suggestions on the compliance development of China's agricultural insurance subsidies under the framework of WTO rules.

Keywords: Agricultural insurance subsidies, U.S.-China trade, agricultural agreements, domestic support.

1. Introduction

Because of the importance of agriculture to national security, farm subsidies have long been a sensitive topic of negotiation between countries. Under the World Trade Organization (WTO) framework, *the Agreement on Agriculture* has not come easily. In order to establish a fair and market-oriented agricultural trade system, WTO members have made binding commitments on agricultural market access, domestic support, and export competition after long consultation [1]. They aim to achieve the goal of gradually and substantially reducing agricultural support and protection, correcting and preventing restrictions and distortions in the world agricultural market.

The trade dispute over agricultural products is a hot spot in the field of international trade. Since the global food crisis in 2008, global food prices have been rising in recent years. Food security, especially in developing countries, has once again attracted wide attention from the international community as a global topic. *The WTO Agreement on Agriculture* includes agricultural products in the multilateral trading system for the first time, which makes the Agreement on Agriculture closely related to the food security of developing countries [2].

This paper discusses the attribution of agricultural insurance subsidies from the perspective of *the WTO Agreement on Agriculture*. This study focuses on the specific norms of *the Agreement on Agriculture*, including market access, export subsidies, and domestic support, and analyzes the negative impacts of the multilateral trade system of agricultural products constructed by *the Agreement on Agriculture* on the agricultural trade policies of developing countries. Besides, the reasonableness of the US case against China's agricultural domestic support is closely examined. Lastly, the author of this paper puts forward some suggestions for optimizing agricultural subsidy policies.

2. Case Study

2.1. 2002 Brazil v. U.S. Dispute over Upland Cotton Subsidies

In the Brazil v. United States upland cotton subsidies case in 2002, the United States employed similar tactics to increase the amount of subsidies by utilizing crop insurance payments, thereby hurting the interests of Brazilian agricultural products. The primary bone of contention revolved around the United States' assertion that its crop insurance payments for upland cotton were non-product-specific support under the Amber Box policy. However, Brazil did not consider U.S. subsidies for crops like upland cotton to be non-specific agricultural support. If the agricultural insurance subsidy policy cannot simply be classified as a green box, the amount of agricultural insurance subsidy support under the Amber box policy needs to be included in the Amber box comprehensive support amount in accordance with the provisions of the Agreement on Agriculture, as a basis for member States to reduce the Amber box policy [3].

2.2. 2009 China v. U.S. White Feather Chicken Case

The first case is the 2009 China v. U.S. White Feather Chicken dispute, where the U.S. side provided financial support to corn and soybean growers through commercial insurance companies, thereby enabling the U.S. white feather chicken industry to better control feed costs and obtain corresponding benefits. This action contravened anti-subsidy regulations as the United States manipulated agricultural insurance subsidies by altering the attribution of the box resorting, exploiting the ambiguity surrounding this aspect in the agricultural agreement to seek its own interests. Within Annex 2, Articles 7 and 8 of *the Agreement on Agriculture*, only agricultural insurance subsidies meeting the conditions of green box agricultural insurance are permitted. Those falling outside this clause are Amber box policies. The green box domestic support system under the WTO Agreement on Agriculture makes agricultural insurance subsidies have a wide space for development; in practice, however, not all agricultural insurance subsidies are reported as green box measures [4]. The lack of clarity in these rules has allowed certain countries to exploit loopholes.

2.3. 2016 U.S. v. China Dispute over the Standard Agricultural Support for Wheat and Corn

In the case of the United States v. China regarding standard agricultural support for wheat and corn in 2016, China, as a major agricultural producer with a large population, has all along adopted various agricultural subsidy measures, including domestic support for agricultural producers. In this

particular case, the United States initiated a consultation request against China's provision of "single market price support" to domestic producers of corn, wheat, Japanese rice, and Indian rice between 2012 and 2015 that exceeded its commitment level [5]. After failed consultations, the United States applied to the WTO Dispute Settlement Body for the establishment of a panel. On February 28, 2019, the Panel issued its report, concluding that China's relevant domestic support measures violated its obligations under Articles 3.2 and 6.3 of the Agreement on Agriculture. The report has been adopted by the Dispute Settlement Body, and China has also expressed its intention to comply with the implementation of dispute settlement.

The absence of a mutually agreed-upon subsidy classification standard led the United States to believe that China's subsidy standards exceeded established standards. Specifically in this case, China did not include the minimum purchase price and temporary purchase price in the Amber box policy; conversely, these were included by the United States within their Amber box policy framework, so the United States believes that China exceeded the micro-allowable level of 8.5% according to WTO commitments. The main strategies of the United States to avoid the constraints of WTO rules include: first, nominal decoupling in policy design; second, the policy notification does not strictly abide by the rules, the measures that should belong to the Amber box are classified as green boxes, the measures that should belong to the specific product support are classified as "non-specific product support", and the level of AMS notified is reduced by underreporting, missing reporting, concealing the actual amount, etc. The third is to circumvent the WTO Amber box constraint by providing subsidies and reinsurance support to agricultural insurance companies [2].

3. Analysis of Existing Problems in the Agreements on Agriculture

In all three cases, the agricultural agreements reveal several problems.

The limited regulations on agricultural insurance subsidies and unclear classification have resulted in many loopholes. Agricultural insurance subsidies are not important when formulating agricultural agreements. Over time, many countries have developed diverse types of agricultural insurance to stabilize their agricultural development. For example, the United States offers five types of agricultural insurance: yield insurance, price insurance, income insurance, profit insurance, and other index insurance. This makes the United States and other developed countries report their agricultural insurance subsidies under the green box category or as "non-specific product support," which lacks transparency and standardization in order to circumvent the constraints imposed by the "Amber box." The size of amber box subsidies is generally measured by the comprehensive amount of support, and the upper limit of Amber box subsidies for agriculture in member countries is a certain proportion of the total output value of their agricultural products, which is 5% in developed countries, 10% in developing countries, and 8.5% in China. Support levels in excess of the maximum Amber box ratio should be reduced as required [3]. This not only violates the WTO's transparency principle but also inflicts substantial losses on developing countries when engaged in international trade. The agreement has only been reached on the green box rule of agricultural insurance subsidies, while the Amber box of agricultural insurance subsidies remains unresolved. Therefore, developed countries like the United States have used green box policy and Amber box non-specific product subsidies to notify subsidies for agricultural insurance, and there is no corresponding institution within the WTO to review the notification, resulting in the lack of standardization of notification. The current WTO agricultural rules follow the starting point constraint and dynamic reduction, pursue free trade, and are formulated entirely from the standpoint of exporting countries, which is extremely unfair to net importers of agricultural products [2].

The interests of a limited number of developed countries are prioritized, while the challenges faced by developing countries in terms of agricultural insurance coverage and subsidy affordability are disregarded. Additionally, the specific national circumstances and future prospects of least developed

countries are not taken into account and some developed countries are maximized in their own interests. Although the WTO agricultural agreement grants preferential treatment to developing countries on the surface, it still exhibits imbalances between developed and developing countries in many aspects. Developed countries often maintain high levels of farm subsidies and only promise slight reductions; Meanwhile, most developing countries already have low levels of subsidies that cannot be increased or exempted from concessions. This imbalance has flooded markets with heavily subsidized agricultural products from developed countries, impacting the livelihoods of small farmers in developing countries.

The double standards of developed and developing countries have led to differences in the classification of agricultural insurance subsidies. For one thing, the green box policy requires “there is little or no distorting effect on trade,” and the definition of the concept is fuzzy. For another, it is difficult for countries to meet the specific requirements of the green box policy in the Agreement on Agriculture in the actual application of agricultural insurance subsidies. And even if WTO member countries carry out agricultural insurance subsidies according to green box standards and conditions, other member countries may also use general standards to measure the impact of agricultural insurance subsidies on trade distortion, which is unfair to inexperienced developing countries, resulting in international agricultural trade disputes.

4. Improvement Measures

With the increasing attention of the WTO and some members to the importance of agricultural insurance subsidies and the standardization of WTO notification, it is imperative to establish a strict, transparent, and standardized system for agricultural insurance subsidies. Countries that violate transparency principles should be promptly notified and penalized to deter such behavior among member countries. To improve the legal system of agricultural subsidies is to better realize farmers' right to subsistence and development [6].

It is crucial to standardize the definition of Amber boxes in the agricultural agreement, and clearly distinguish the definition of Amber boxes and green boxes, and distinguish the support of specific agricultural products from non-specific agricultural products, so as to avoid irregular subsidy measures and unequal international trade caused by different definitions of identification between countries.

Refining the standard of agricultural insurance subsidies is necessary by providing relative subsidies and international assistance to developing countries and least developed countries. Separate rules addressing agricultural insurance subsidies ought to be established to prevent some countries from exploiting loopholes within the existing rules.

Lastly, setting up a special review body would ensure thorough scrutiny and rectification of some key data as well as measurement standards provided in each country's domestic notification. Standardization and transparency requirements for national domestic notifications are necessary steps towards creating a fair and just trade environment.

5. Conclusion

This paper analyzes the main problems in the WTO Agreement on Agriculture, including imbalance, limited rules of the agreement on agriculture and domestic support policies, implementation of special and differential treatment, and monitoring and transparency issues. In the process of applying the principle of transparency in the WTO dispute settlement mechanism, the scope of application of the principle of transparency is extremely limited, and the requirements of the principle of transparency are only implemented a few times [7]. These problems not only affect the free trade of agricultural products and the healthy development of global agricultural markets, but also have a negative impact

on agricultural industries and farmers' livelihoods in developing countries. Therefore, this study proposes that it is imperative to reform and improve the agreement in order to better balance the interests of developed and developing countries and promote the sustainable development of global agricultural trade. In this regard, there are the following suggestions: (1) Some developed countries reduce the subsidy standard by deceiving some data for domestic notification. The WTO should standardize the domestic notification process to enhance transparency and standardization, and increase the punishment for violations or improper means, such as joining the list of untrustworthy and imposing fines. (2) Since the WTO organization is accustomed to setting loose and vague provisions to achieve the purpose acceptable to all countries, but at the same time, it also leaves hidden dangers for the prevarication between countries in trade disputes in the future, the future WTO should be more detailed in the provisions of professional terminology interpretation and subsidy standards. (3) Provide technical assistance or policy support to the least developed countries and raise the level of subsidies so that the least developed countries can enjoy the same benefits. (4) Set up a special review body to check and correct some key data and measurement standards of each country's domestic notification, require the standardization and transparency of national domestic notification, and establish a fair and just trade environment.

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